

**CITY OF CANAL FULTON
STARK COUNTY, OHIO**

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006

Varney, Fink & Associates, Inc.
Certified Public Accountants



Mary Taylor, CPA

Auditor of State

Members of Council
City of Canal Fulton
155 East Market Street
Canal Fulton, Ohio 44614

We have reviewed the *Independent Auditor's Report* of the City of Canal Fulton, Stark County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Canal Fulton is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 19, 2008

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**CITY OF CANAL FULTON
STARK COUNTY, OHIO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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INDEPENDENT AUDITOR'S REPORT

City of Canal Fulton
Stark County
155 East Market Street
Canal Fulton, Ohio 44614

To Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Canal Fulton (Stark County), Ohio (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Street Maintenance Fund, Police Fund and Fire/EMS Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (continued)

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

July 18, 2008

City of Canal Fulton, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The discussion and analysis for the City of Canal Fulton's financial statements provide an overall review of the financial activity of the City for the twelve months ended December 31, 2006. The intent of this discussion is to provide a narrative that describes the City's performance as a whole. To obtain a more detailed understanding, one should also review the basic financial statements.

Financial Highlights

Financial highlights for 2006 are as follows:

- Total Net Assets decreased \$80,925. This was primarily the result of a decrease in the Net Assets of Governmental Activities of (\$84,486) which represents a 1.2 percent decrease from 2005.
- Total Assets of Governmental Activities increased \$1,435,429 or 16.3 percent above the 2005 level.
- Total Assets of Business-Type Activities increased \$68,480 for a .6 percent increase from the prior year.
- Total Liabilities of Governmental Activities increased \$1,519,915. This is an increase of 94.7 percent from the previous year.
- Total Outstanding Debt increased \$1,815,206 or 49.1 percent during 2006.

Using this Annual Financial Report

This report consists of a series of financial statements and notes to those statements. These statements are prepared and organized in a manner that allows the reader to look at the financial activities of the City of Canal Fulton as a whole and also allows the reader to obtain a more detailed view of the City's operations, if they prefer.

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2006 and how they effected the operations of the City as a whole.

Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the City of Canal Fulton as a Whole

Statement of Net Assets and Statement of Activities

The Statement of Net Assets and the Statement of Activities provide summary information concerning the financial position and operations of the City as an entity. They provide a good resource for an overall evaluation of the City's financial performance. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. This method takes into account all revenues when they are earned and all expenses when they are incurred. These transactions are booked when they occur and not when the actual cash is received for revenues or when invoices are paid for expenses.

City of Canal Fulton, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

These two statements report the City's net assets and changes in those assets. The change in net assets is important since it is an indication of whether the financial position of the City is improving or declining. However, to properly evaluate the operation of the City, certain non-cash items should be taken into consideration. These items would include the current economic situation as a whole, the current tax base for the City and the age and condition of the City's buildings and infrastructure.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two major activities:

Governmental Activities – Most of the City's programs and services are reported here including, general government, police, fire, public health and welfare and leisure time activities.

Business-Type Activities – These services are provided on a fee basis to recover all of the expenses of the goods or services provided. The City's business-type activities are water and sewer.

Reporting on the Most Significant Funds of the City of Canal Fulton

Fund Financial Statements

The analysis of the City's major funds begins on page 7. Fund financial reports give a detailed report of the activities within the funds. The City currently has eighteen funds, as presented in this report. These funds are in existence to provide a multitude of services to the citizens of Canal Fulton. Some funds provide for streets, police, fire and emergency medical service protection, capital improvements, water service and sewer service. Some also provide for the purchase of capital assets, while others provide for the payment of principal and interest on debt. Each fund is in some ways an entity unto itself. Each fund, other than the General fund, has a designated revenue stream and restricted uses for the monies within the fund.

In this report, the focus is on seven major funds, the General Fund, the Street Maintenance Fund, the Police Fund, the Fire/EMS Fund, the Capital Improvement Fund, the Water Fund and the Sewer Fund.

Governmental Funds All of the City's major activities (excluding the Utility Department) are reported in the governmental funds. This report shows how monies flow into and out of these funds and also shows what balances are available for future expenditures. The accounting method used to report this activity is the modified accrual method. This method reports cash and like-cash items that can be converted into cash. This shows what level of financial resources are available or will be available to provide the services that the general government will provide in the near future. These services include police, fire and emergency medical service protection, as well as improving and maintaining the City's streets. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental funds is reconciled in the financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

City of Canal Fulton, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The City of Canal Fulton as a Whole

The Statement of Net Assets provides an overall view of the City. Table 1 shows a summary of the City's net assets for 2006 as they compare to 2005.

Table 1 - City of Canal Fulton, Ohio - Net Assets

	Governmental Activities		Business-Type Activities		Total	Total
	2006	2005	2006	2005	2006	2005
Assets						
Current and Other Assets	\$3,146,541	\$1,841,389	\$2,371,752	\$2,125,379	\$5,518,293	\$3,966,768
Capital Assets, Net	7,112,886	6,982,609	9,640,007	9,817,900	16,752,893	16,800,509
Total Assets	10,259,427	8,823,998	12,011,759	11,943,279	22,271,186	20,767,277
Liabilities						
Current and Other Liabilities	1,434,296	1,215,816	36,547	40,013	1,470,843	1,255,829
Long-Term Liabilities, Due Within One Year	104,775	145,529	269,073	243,703	373,848	389,232
Long-Term Liabilities, Due in More Than One Year	1,586,152	243,963	2,802,336	2,759,321	4,388,488	3,003,284
Total Liabilities	3,125,223	1,605,308	3,107,956	3,043,037	6,233,179	4,648,345
Net Assets						
Invested in Capital Assets, Net of Debt	4,742,691	5,881,885	6,594,026	6,867,391	11,336,717	12,749,276
Restricted, Restated	2,111,724	782,136	0	0	2,111,724	782,136
Unrestricted	279,789	554,669	2,309,777	2,032,851	2,589,566	2,587,520
Total Net Assets, Restated	\$7,134,204	\$7,218,690	\$8,903,803	\$8,900,242	\$16,038,007	\$16,118,932

Total assets increased in 2006 by \$1,503,909. This increase was the result of an increase in cash of \$1,622,714. The increase in capital assets is mainly due to the purchase of park land and the Fire Station Bond issuance.

Total liabilities increased by \$1,584,834 in 2006. The total liabilities of governmental activities increased by \$1,519,915 while the liabilities of the business-type activities increased by \$64,919. The increase in governmental activities was due primarily to the issuance of notes. The increase in business-type activities was due to a decrease in accounts and contracts payable and the City paying principal on the OPWC debt.

City of Canal Fulton, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Table 2 shows the changes in net assets for the year ended December 31, 2006 for both our Governmental activities and our Business-Type activities.

Table 2 - City of Canal Fulton, Ohio - Changes in Net Assets

	Governmental Activities 2006	Governmental Activities 2005	Business-Type Activities 2006	Business-Type Activities 2005	Total 2006	Total 2005
Revenues						
Program Revenues:						
Charges for Services	\$129,448	\$114,461	\$1,390,946	\$1,213,403	\$1,520,394	\$1,327,864
Operating Grants and Contributions	129,678	207,678	0	0	129,678	207,678
Capital Grants and Contributions	119,879	448,207	0	1,190,645	119,879	1,638,852
General Revenues:						
Property Taxes	335,913	354,287	0	0	335,913	354,287
Income Taxes	1,106,368	1,198,320	0	0	1,106,368	1,198,320
Grants and Entitlements Not Restricted to Specific Programs	224,832	197,311	0	0	224,832	197,311
Investment Income	113,047	82,595	1,632	351	114,679	82,946
Miscellaneous	30,374	33,402	2,189	5,805	32,563	39,207
Total Revenues	2,189,539	2,636,261	1,394,767	2,410,204	3,584,306	5,046,465
Expenses						
Program Expenses:						
General Government	498,718	412,637	0	0	498,718	412,637
Security of Persons and Property	1,287,370	989,949	0	0	1,287,370	989,949
Leisure Time Services	66,603	609,431	0	0	66,603	609,431
Community Environment	0	33,593	0	0	0	33,593
Transportation	340,700	216,983	0	0	340,700	216,983
Interest and Fiscal Charges	80,634	21,659	0	54,680	80,634	76,339
Sewer	0	0	722,975	496,504	722,975	496,504
Water	0	0	668,231	395,071	668,231	395,071
Total Expenses	2,274,025	2,284,252	1,391,206	946,255	3,665,231	3,230,507
Increase (Decrease) in Net Assets	(84,486)	352,009	3,561	1,463,949	(80,925)	1,815,958
Net Assets - Beginning - Restated	7,218,690	6,866,681	8,900,242	7,436,293	16,118,932	14,302,974
Net Assets - Ending	\$7,134,204	\$7,218,690	\$8,903,803	\$8,900,242	\$16,038,007	\$16,118,932

Governmental Activities

The funding for governmental activities comes from several different sources, the most significant being the City's municipal income tax. Other prominent sources are property taxes, intergovernmental revenue, charges for services, and interest.

The City's income tax was established to be effective January 1, 1984 at a rate of 0.50 percent. This rate was later increased to .75 percent effective January 1, 1996 and further increased to 1.00 percent effective January 1, 2001. In the November, 2004 election, the voters of Canal Fulton elected to increase the income tax rate to 1.10 percent effective January 1, 2005. Effective January 1, 2003, the City allowed a 50 percent credit of the City's income tax rate for taxes paid to other political subdivisions in Ohio. On a full accrual basis, the City received income tax revenue of \$1,106,368.

City of Canal Fulton, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The operations of the City's police and fire departments accounts for the largest expenses of the governmental activities, representing 56.6 percent of the total governmental activities expenses. The City's police department is a full-time 24-hour a day, 365-days a year department, with a full-time chief and 7 patrolmen. The fire department is staffed by part-time volunteer firefighters. The police and fire departments each receive a 1.00 mill property tax levy. The remaining amount that is needed to operate the police department is subsidized by the general fund.

Business-Type Activities

The City operates a Utility Department that consists of water and sewer services. The largest part of the utilities is the water utility, which includes water administration, a water treatment plant and water distribution.

The water utility services 2,050 customers which include residents of the City as well as outside-City customers. The City's water rates are \$2.00 per thousand gallons with a minimum rate of \$10.35 for inside City residential customers and \$5.00 per thousand gallons for outside City residential customers.

The City's water treatment plant treats an average of 435,000 gallons of water per day with a capacity to treat an additional 400,000 per day. The raw water is supplied by five wells throughout the City. The water treatment plant was built in 1989.

The City provides sewer treatment services. The City owns and maintains sewer lines throughout the City. The City charges residential customers a minimum rate of \$12.83 and then \$2.62 for each additional 1,000 gallons. For customers who pay sewer only, these residents pay a flat rate of \$20.66. As of December 31, 2006, the City had 43 of these accounts.

The revenues and expenses for both of these utilities are reported under the Business-Type Activities in Table 2. The revenues typically are derived primarily from charges for services. In 2006, this amount of \$1,390,946 accounted for 91.5 percent of the revenues. The total expenses for the utilities were \$1,391,206, resulting in a surplus of revenues over expenses in the amount of \$3,561 for the Business-Type Activities.

The City's Funds

Information about the City's governmental funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had revenues of \$2,427,555, excluding transfers in and proceeds of loans and expenditures of \$2,610,367, excluding transfers out. The City's general fund reflected a decrease in fund balance of \$261,141 and carries forward an ending fund balance of \$299,727 to meet times of lower revenues. Overall, the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole.

Information about the proprietary funds starts on page 22. These funds are accounted for on an accrual basis. All business-type funds had operating revenues of \$1,393,135 and an operating gain of approximately \$63,000.

Budgeting Highlights

The City's budget is prepared according to the laws of the State of Ohio and is based on accounting for certain transactions on a cash basis for receipts, expenditures, and encumbrances. The most significant budgeted fund is the general fund. The legal level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by ordinance of City Council. During 2006, two supplemental appropriation measures were authorized by the City Council. Administrative control of the budget is maintained through the establishment of detailed line-item budgets. Intra-fund transfers within existing appropriations are contained in the annual appropriation measure and are permitted once the permanent appropriation measure has been passed by City Council.

City of Canal Fulton, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Strong emphasis is placed on fund balances. The Finance Director reviews the fund balances on a daily basis. Special attention is paid to the City's largest funds, which are the General, Water and Sewer funds. Council receives a monthly report showing the beginning fund balance for all funds at the beginning of the year, monthly and year-to-date revenues, and the current fund balance.

Line item reports are reviewed regularly by the Finance Director. The department heads, as well as the City Manager, also monitor their appropriations to ensure the entire operation of the City operates within the appropriations.

For the General fund, original and final budgeted revenues were \$2,010,978 and \$2,565,738, respectively and actual revenue collections were \$1,814,921. The 2006 budgeted revenues were \$750,817 over the actual revenues.

Also in the General fund, the original budgeted expenditures and final budgeted expenditures were \$609,729 and \$632,729, respectively. The actual expenditures were \$690,419. The City's ending unencumbered cash balance in the general fund was \$931,662 below the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

Table 3 - City of Canal Fulton, Ohio - Capital Assets
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	Total
	2006	2005	2006	2005	2006	2005
Land	\$2,433,800	\$2,433,800	\$313,600	\$313,600	\$2,747,400	\$2,747,400
Construction in Progress	89,626	109,816	0	25,600	89,626	135,416
Buildings and Improvements	2,020,850	1,928,971	2,634,602	2,657,295	4,655,452	4,586,266
Equipment and Machinery	144,533	109,154	66,470	107,540	211,003	216,694
Vehicles	129,744	89,663	24,667	31,678	154,411	121,341
Infrastructure:						
Storm Sewers	1,836,734	1,876,928	0	0	1,836,734	1,876,928
Roads	457,599	434,277	0	0	457,599	434,277
Sewer Lines	0	0	2,908,209	2,899,646	2,908,209	2,899,646
Water Lines	0	0	3,692,459	3,782,541	3,692,459	3,782,541
Total Capital Assets, Net	\$7,112,886	\$6,982,609	\$9,640,007	\$9,817,900	\$16,752,893	\$16,800,509

Total Capital Assets, Net for the City of Canal Fulton for the year ended December 31, 2006 was \$16,752,893, which reflects a decrease of \$47,616 from the 2005 ending balance of \$16,800,509. The primary cause for this decrease in Capital Assets is due to current year depreciation expense. See Note 11 in the financial statements for more information regarding the City's capital assets.

Debt

The outstanding debt for the City of Canal Fulton as of December 31, 2006 was \$5,432,874. This balance reflected an increase of \$1,352,937 from the previous year's balance of \$4,079,937, an increase of 33.2 percent.

City of Canal Fulton, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Table 4 - City of Canal Fulton, Ohio - Long Term Debt
(As of end of each year)

	Governmental Activities		Business-Type Activities		Total	Total
	2006	2005	2006	2005	2006	2005
Special Assessment Bonds	\$12,000	\$24,000	\$0	\$0	\$12,000	\$24,000
General Obligation Bonds	1,620,297	326,724	0	0	1,620,297	326,724
Water Bonds	0	0	1,396,401	1,548,128	1,396,401	1,548,128
OPWC Loan	0	0	1,654,176	1,431,085	1,654,176	1,431,085
Bond Anticipation Notes	750,000	750,000	0	0	750,000	750,000
Total Long Term Debt	<u>\$2,382,297</u>	<u>\$1,100,724</u>	<u>\$3,050,577</u>	<u>\$2,979,213</u>	<u>\$5,432,874</u>	<u>\$4,079,937</u>

The special assessment bonds in the Governmental Activities are for the Elmridge Street Improvement Project. This is a 20 year bond that carries a 6.50 percent interest rate. The bonds will be repaid over a period of 20 years, to expire in 2007 and will be repaid using special assessments.

The general obligation bonds are for the Downtown Improvement Project, Police Station Construction and the Fire Station Construction. These carry a 2.60-4.20 percent interest rate. The bonds will be repaid over a period of time varying from 5 to 10 years. Property tax revenue and general revenues will be used to repay these bonds.

The water bonds in the Business-Type Activities include bonds for the construction and expansion of the wastewater treatment plant. This debt carries interest rates of 2.6 – 4.2 percent. User fees will pay this off over a period of 10 years. This bond will be retired in 2011. The water bonds category also includes a 20 year bond with interest rates of 3.0 – 4.5 percent. This bond will be retired in 2025 and is for the construction of a waterline to the Northwest Schools campus.

The Ohio Public Works Commission Loan (OPWC) is comprised of six separate, zero percent interest loans. The purpose of these loans are for the construction and improvement of various water and sewer projects, most notable is the Water Treatment Plant and Wellfield Expansion project. These loans will be repaid over a period of 20 years by user fees. The loans will be retired anywhere from 2015 to 2024.

See Notes 12 and 13 in the financial statements for more information regarding the City's debt.

Current Financial Issues

Over the past twelve years, income tax collections (on a cash basis) have increased from \$425,403 in 1993, to \$1,220,987 in 2005. In 2006 we collected \$1,264,825, which is an increase of \$43,837 from 2005 collections. In 2006, some major businesses closed down or relocated their offices outside the City. This data is significant because despite the anticipated decline in revenues from these withholding accounts, the personal income tax base is growing. Our income tax collections are distributed to various funds in varying percentages, which are reviewed yearly by City Council. In 2006 all income tax collections were directed to the general fund, which allows the City to be able to accomplish numerous projects throughout Canal Fulton without having to increase the debt burden of the City. At the end of 2007, the City will retire the 20 year Elmridge Street Improvement Bond that funded improvements in an industrial park. The majority of the remaining debt is for the City's water and sewer utilities, including bonds and 0% interest OPWC loans and will be repaid from user fees.

The City will continue to grow through annexation. In 2007, there have been parcels of unimproved farm land that have been annexed. Fulton Landings is a new housing development located on the City's north side that has completed the initial infrastructure improvements and is expected to develop over 40 lots. Additional adjacent land to the City has been sold to developers that have expressed interest in pursuing residential and retail ventures. These new parcels will eventually bring new mixed growth and further strengthen our economic base. The City has capitalized and encouraged annexations and expects to bring in additional land and businesses this next year.

City of Canal Fulton, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The City continues to make a conscious effort to keep operating expenses within the previous year's levels. Enrolling in safety programs that are offered by the Bureau of Workers Comp. for reduced premiums and initiating additional safety requirements are some of the new programs that the City has currently adopted. Savings from health and liability insurance, aggressively pricing supply vendors, performing some jobs functions internally and outsourcing others are part of an ongoing cost analysis that strengthens each department's financial position and lends accountability to our residents.

In 2005, the City purchased over 24 acres that is centrally located to develop a community park. This parcel is adjacent to the Police Department and will also be the site of a voter approved new fire station. The \$1.5 million fire station is expected to break ground in 2007 and finish in the fall. The Fire Station and the Police building will consolidate safety forces at one location and be an anchor to the park. The City is actively searching for grants and will continue to apply for grants that will facilitate development of the new park. The new park is within biking distance of the Ohio Erie Canal Towpath and will complement the Visitor Center that opened in 2005. The City's commitment to our residents in maintaining and developing our safety forces and parks remains a high priority.

As we go into 2007, the Administration is aware that operating costs continue to increase. The City Council has passed an Ordinance for a tax increase to be voted on in the November 2007 general election. This tax initiative will increase the income tax rate from its current 1.1% to 1.5%. The increased revenues will be used to expand the current police force, as well as increase projects in the streets and parks departments.

Contacting the City's Finance Department

This report is intended to provide our citizens and anyone interested in the financial aspects of the City of Canal Fulton a general overview of our financial operation. If there are any questions, please feel free to contact the Finance Director Scott M. Svab, City of Canal Fulton, 155 E. Market Street, Canal Fulton, Ohio 44614, telephone (330) 854-6761 or website at www.cityofcanalfulton.org.

Basic Financial Statements

City of Canal Fulton, Ohio
Stark County
Statement of Net Assets
December 31, 2006

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$2,230,889	\$1,268,532	\$3,499,421
Accounts Receivable	0	101,848	101,848
Intergovernmental Receivable	214,252	978,775	1,193,027
Income Taxes Receivable	333,453	0	333,453
Property Taxes Receivable	367,947	0	367,947
Deferred Charges	0	22,597	22,597
Noncurrent Assets:			
Non-Depreciable Capital Assets	2,523,426	314,200	2,837,626
Depreciable Capital Assets, Net	4,589,460	9,325,807	13,915,267
Total Assets	10,259,427	12,011,759	22,271,186
Liabilities			
Current Liabilities:			
Accounts Payable	8,414	5,444	13,858
Accrued Wages and Benefits	18,545	9,140	27,685
Vacation Benefits Payable	11,186	1,217	12,403
Accrued Interest Payable	8,586	7,726	16,312
Intergovernmental Payable	84,669	13,020	97,689
Deferred Revenue	552,896	0	552,896
Notes Payable	750,000	0	750,000
Noncurrent Liabilities:			
Due Within One Year	104,775	269,073	373,848
Due In More Than One Year	1,586,152	2,802,336	4,388,488
Total Liabilities	3,125,223	3,107,956	6,233,179
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,742,691	6,594,026	11,336,717
Restricted for:			
Debt Service	31,786	0	31,786
Capital Projects	1,845,995	0	1,845,995
Street Repair and Maintenance	222,733	0	222,733
Police Protection	8,647	0	8,647
St Helena II Canal Boat	2,053	0	2,053
Unrestricted	280,299	2,309,777	2,590,076
Total Net Assets	\$7,134,204	\$8,903,803	\$16,038,007

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio
Stark County
Statement of Activities
For the Year Ended December 31, 2006

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General Government	\$498,718	\$31,784	\$2,273	\$54,766	(409,895)	\$0	(\$409,895)
Security of Persons and Property	1,287,370	46,298	30,595	0	(1,210,477)	0	(1,210,477)
Leisure Time Services	66,603	50,579	364	65,113	49,453	0	49,453
Transportation	340,700	787	96,446	0	(243,467)	0	(243,467)
Interest and Fiscal Charges	80,634	0	0	0	(80,634)	0	(80,634)
Total Governmental Activities	2,274,025	129,448	129,678	119,879	(1,895,020)	0	(1,895,020)
Business-Type Activities							
Sewer	722,975	740,220	0	0	0	17,245	17,245
Water	668,231	650,726	0	0	0	(17,505)	(17,505)
Total Business-Type Activities	1,391,206	1,390,946	0	0	0	(260)	(260)
Totals	\$3,665,231	\$1,520,394	\$129,678	\$119,879	(1,895,020)	(260)	(1,895,280)
General Revenues:							
Property Taxes Levied for:							
General Purposes					200,835	0	200,835
Law Enforcement					67,197	0	67,197
Fire Protection					67,881	0	67,881
Income Taxes					1,106,368	0	1,106,368
Grants and Entitlements not Restricted to Specific Programs					224,832	0	224,832
Investment Earnings					113,047	1,632	114,679
Miscellaneous					30,374	2,189	32,563
Total General Revenues					1,810,534	3,821	1,814,355
Change in Net Assets					(84,486)	3,561	(80,925)
Net Assets Beginning of Year (As Restated See Note 3)					7,218,690	8,900,242	16,118,932
Net Assets End of Year					\$7,134,204	\$8,903,803	\$16,038,007

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio
Stark County
Balance Sheet
Governmental Funds
December 31, 2006

	General	Street Maintenance	Police	Fire/EMS	Capital Improvements	All Other Governmental Funds	Total Governmental Funds
Assets							
Current Assets:							
Equity in Pooled Cash and Cash Equivalents	\$142,355	\$48,194	\$64,596	\$24,146	\$1,719,723	\$231,875	\$2,230,889
Interfund Receivable	3,756	0	0	0	0	0	3,756
Intergovernmental Receivable	79,813	97,084	3,844	3,502	0	30,009	214,252
Income Taxes Receivable	333,453	0	0	0	0	0	333,453
Property Taxes Receivable	224,615	0	71,666	71,666	0	0	367,947
Total Assets	\$783,992	\$145,278	\$140,106	\$99,314	\$1,719,723	\$261,884	\$3,150,297
Liabilities							
Current Liabilities:							
Accounts Payable	\$6,410	\$1,308	\$480	\$216	\$0	\$0	\$8,414
Accrued Wages and Benefits	3,235	1,642	9,011	4,657	0	0	18,545
Vacation Benefits Payable	2,957	1,781	6,448	0	0	0	11,186
Intergovernmental Payable	5,213	2,908	32,851	43,697	0	0	84,669
Accrued Interest Payable	0	0	0	0	2,922	0	2,922
Notes Payable	0	0	0	0	750,000	0	750,000
Interfund Payable	0	0	0	0	0	3,756	3,756
Deferred Revenue	466,450	81,103	75,510	75,168	0	24,647	722,878
Total Liabilities	484,265	88,742	124,300	123,738	752,922	28,403	1,602,370
Fund Balances							
Reserved for:							
Encumbrances	75,703	13,758	1,667	4,951	24,923	16,065	137,067
Unreserved, Undesignated, Reported in:							
General Fund	224,024	0	0	0	0	0	224,024
Special Revenue Funds	0	42,778	14,139	(29,375)	0	61,864	89,406
Debt Service Funds	0	0	0	0	0	28,030	28,030
Capital Projects Funds	0	0	0	0	941,878	127,522	1,069,400
Total Fund Balances	299,727	56,536	15,806	(24,424)	966,801	233,481	1,547,927
Total Liabilities and Fund Balances	\$783,992	\$145,278	\$140,106	\$99,314	\$1,719,723	\$261,884	\$3,150,297

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio
Stark County
Reconciliation of Total Governmental Fund Balances to Net Assets
of Governmental Activities
For the Year Ended December 31, 2006

Total Governmental Fund Balances \$1,547,927

*Amounts reported for governmental activities in the
statement of activities are different because*

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.

Land	2,433,800	
Construction in Progress	89,626	
Buildings & Improvements (Net of Depreciation)	2,020,850	
Vehicles (Net of Depreciation)	129,744	
Equipment & Machinery (Net of Depreciation)	144,533	
Infrastructure (Net of Depreciation)	<u>2,294,333</u>	
Total		7,112,886

Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds.

Property Taxes	7,655	
Local Taxes	<u>162,327</u>	
Total		169,982

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

General Obligation Bonds	(1,608,195)	
Premium on Bonds	(12,102)	
Special Assessment Bonds	(12,000)	
Accrued Interest	(5,664)	
Compensated Absences	<u>(58,630)</u>	
		(1,696,591)

Net Assets of Governmental Activities \$7,134,204

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio
Stark County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Street Maintenance	Police	Fire/EMS	Capital Improvements	All Other Governmental Funds	Total Governmental Funds
Revenues:							
Property Taxes	\$195,462	\$0	\$66,056	\$66,740	\$0	\$0	\$328,258
Income Taxes	1,106,368	0			0	0	1,106,368
Charges for Services	14,892	0	0	42,666	0	0	57,558
Licenses and Permits	17,521	0	0	0	0	45,485	63,006
Fines and Forfeitures	5,252	0	750	0	0	2,882	8,884
Intergovernmental	211,407	188,028	21,901	14,499	179,341	92,160	707,336
Special Assessments	0	0	0	0	0	4,023	4,023
Interest	112,410	0	0	0	0	0	112,410
Contributions and Donations	2,693	0	50	5,400	0	1,195	9,338
Other	15,246	2,364	0	654	12,000	110	30,374
Total Revenues	1,681,251	190,392	88,757	129,959	191,341	145,855	2,427,555
Expenditures:							
Current:							
General Government	386,528	0	0	0	0	17	386,545
Security of Persons and Property	0	0	770,647	483,778	0	2,023	1,256,448
Leisure Time Services	66,603	0	0	0	0	0	66,603
Transportation	10,295	285,004	0	0	0	19,039	314,338
Capital Outlay	0	0	0	0	264,754	15,118	279,872
Debt Service:							
Principal Retirement	0	0	0	0	85,000	145,529	230,529
Interest and Fiscal Charges	0	0	0	0	62,201	13,831	76,032
Total Expenditures	463,426	285,004	770,647	483,778	411,955	195,557	2,610,367
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,217,825	(94,612)	(681,890)	(353,819)	(220,614)	(49,702)	(182,812)
Other Financing Sources (Uses):							
Transfers In	0	41,000	619,811	383,000	250,000	185,155	1,478,966
Proceeds of Loans	0	0	0	0	1,512,739	0	1,512,739
Transfers Out	(1,478,966)	0	0	0	0	0	(1,478,966)
Total Other Financing Sources (Uses)	(1,478,966)	41,000	619,811	383,000	1,762,739	185,155	1,512,739
Net Change in Fund Balances	(261,141)	(53,612)	(62,079)	29,181	1,542,125	135,453	1,329,927
Fund Balance (Deficit) Beginning of Year, (As Restated See Note 3)	560,868	110,148	77,885	(53,605)	(575,324)	98,028	218,000
Fund Balance (Deficit) End of Year	\$299,727	\$56,536	\$15,806	(\$24,424)	\$966,801	\$233,481	\$1,547,927

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio
Stark County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Street Maintenance
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Intergovernmental	\$159,792	\$280,342	\$186,245	(\$94,097)
Other	872	1,529	2,364	835
Total Revenues	160,664	281,871	188,609	(93,262)
EXPENDITURES:				
Current:				
Transportation	343,586	343,586	303,133	40,453
(Deficiency) of Revenues (Under) Expenditures	(182,922)	(61,715)	(114,524)	(52,809)
OTHER FINANCING SOURCES:				
Transfers In	35,177	61,715	41,000	(20,715)
Net Change in Fund Balance	(147,745)	0	(73,524)	(73,524)
Fund Balance at Beginning of Year	88,245	88,245	88,245	0
Prior Year Encumbrances Appropriated	18,407	18,407	18,407	0
Fund Balance (Deficit) at End of Year	<u>(\$41,093)</u>	<u>\$106,652</u>	<u>\$33,128</u>	<u>(\$73,524)</u>

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio
Stark County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Police Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Property Taxes	\$72,371	\$72,371	\$66,056	(\$6,315)
Fines and Forfeitures	818	840	750	(90)
Intergovernmental	25,605	26,265	23,463	(2,802)
Contributions and Donations	55	55	50	(5)
Total Revenues	98,849	99,531	90,319	(9,212)
EXPENDITURES:				
Current:				
Security of Persons and Property	793,375	793,375	776,124	17,251
Excess (Deficiency) of Revenues Over (Under) Expenditures	(694,526)	(693,844)	(685,805)	8,039
OTHER FINANCING SOURCES:				
Transfers In	676,397	693,843	619,811	(74,032)
Net Change in Fund Balance	(18,129)	(1)	(65,994)	(65,993)
Fund Balance at Beginning of Year	100,581	100,581	100,581	0
Prior Year Encumbrances Appropriated	27,862	27,862	27,862	0
Fund Balance (Deficit) at End of Year	\$110,314	\$128,442	\$62,449	(\$65,993)

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio
Stark County
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Fire/EMS
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES:				
Property Taxes	\$72,371	\$72,371	\$66,740	(\$5,631)
Charges for Services	43,337	35,306	46,451	11,145
Intergovernmental	13,527	11,020	14,499	3,479
Contributions and Donations	5038	4,104	5,400	1,296
Reimbursements	134	109	144	35
Other	0	0	510	510
Total Revenues	134,407	122,910	133,744	10,834
EXPENDITURES:				
Current:				
Security of Persons and Property	388,700	411,700	498,687	(86,987)
(Deficiency) of Revenues (Under) Expenditures	(254,293)	(288,790)	(364,943)	(76,153)
OTHER FINANCING SOURCES:				
Transfers In	357,327	291,104	383,000	91,896
Net Change in Fund Balance	103,034	2,314	18,057	15,743
Fund (Deficit) at Beginning of Year	(60)	(60)	(60)	0
Prior Year Encumbrances Appropriated	982	982	982	0
Fund Balance at End of Year	\$103,956	\$3,236	\$18,979	\$15,743

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio
Stark County
Statement of Fund Net Assets
Proprietary Funds
December 31, 2006

	Business-Type Activities Enterprise Funds		
	Sewer	Water	Totals
Assets			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$664,587	\$603,945	\$1,268,532
Receivables:			
Accounts	53,419	48,429	101,848
Intergovernmental	0	978,775	978,775
Total Current Assets	718,006	1,631,149	2,349,155
Noncurrent Assets:			
Deferred Charges	0	22,597	22,597
Non-Depreciable Capital Assets	228,500	85,700	314,200
Depreciable Capital Assets, Net	4,698,120	4,627,687	9,325,807
Total Noncurrent Assets	4,926,620	4,735,984	9,662,604
Total Assets	5,644,626	6,367,133	12,011,759
Liabilities			
Current Liabilities:			
Accounts Payable	2,699	2,745	5,444
Accrued Wages	4,214	4,926	9,140
Vacation Benefits Payable	853	364	1,217
Intergovernmental Payable	6,419	6,601	13,020
Accrued Interest Payable	0	7,726	7,726
Compensated Absences Payable	952	1,031	1,983
General Obligation Bonds Payable	0	158,532	158,532
OPWC Loans Payable	39,665	68,893	108,558
Total Current Liabilities	54,802	250,818	305,620
Noncurrent Liabilities:			
Compensated Absences Payable - Net of Current Portion	9,046	9,803	18,849
General Obligation Bonds Payable - Net of Current Portion	0	1,237,869	1,237,869
OPWC Loans Payable - Net of Current Portion	584,540	961,078	1,545,618
Total Noncurrent Liabilities	593,586	2,208,750	2,802,336
Total Liabilities	648,388	2,459,568	3,107,956
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,302,415	2,291,611	6,594,026
Unrestricted	693,823	1,615,954	2,309,777
Total Net Assets	\$4,996,238	\$3,907,565	\$8,903,803

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio
Stark County
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006

	Business-Type Activities- Enterprise Funds		
	Sewer	Water	Totals
Operating Revenues:			
Charges for Services	\$740,220	\$650,726	\$1,390,946
Other Operating Revenue	0	2,189	2,189
<i>Total Operating Revenues</i>	<u>740,220</u>	<u>652,915</u>	<u>1,393,135</u>
Operating Expenses:			
Personal Services	326,046	345,690	671,736
Contractual Services	157,078	106,762	263,840
Materials and Supplies	86,002	47,088	133,090
Depreciation	152,410	99,563	251,973
Other	1,439	8,277	9,716
<i>Total Operating Expenses</i>	<u>722,975</u>	<u>607,380</u>	<u>1,330,355</u>
<i>Operating Income</i>	<u>17,245</u>	<u>45,535</u>	<u>62,780</u>
Non-Operating Revenues (Expenses):			
Interest	0	1,632	1,632
Interest and Fiscal Charges	0	(60,851)	(60,851)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>0</u>	<u>(59,219)</u>	<u>(59,219)</u>
<i>Change in Net Assets</i>	<u>17,245</u>	<u>(13,684)</u>	<u>3,561</u>
<i>Net Assets at Beginning of Year</i>	<u>4,978,993</u>	<u>3,921,249</u>	<u>8,900,242</u>
<i>Net Assets at End of Year</i>	<u><u>\$4,996,238</u></u>	<u><u>\$3,907,565</u></u>	<u><u>\$8,903,803</u></u>

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio
Stark County
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	Business-Type Activities- Enterprise Funds		
	Sewer	Water	Totals
Cash Flows from Operating Activities			
Cash Received from Customers	\$747,056	\$661,141	\$1,408,197
Cash Received for Other Operating Revenues	0	2,189	2,189
Cash Payments to Employees for Services	(330,576)	(351,011)	(681,587)
Cash Payments for Goods and Services	(240,611)	(151,758)	(392,369)
Cash Payments for Other Operating Expenses	(1,439)	(8,277)	(9,716)
Net Cash Provided by Operating Activities	174,430	152,284	326,714
Cash Flows from Capital and Related Financing			
Financing Activities			
Capital Contributions	0	60,000	60,000
Proceeds from OPWC Loans	0	331,649	331,649
Acquisition of Capital Assets	(48,297)	(25,783)	(74,080)
Principal Paid on Bonds	0	(151,471)	(151,471)
Interest Paid on Bonds	0	(60,752)	(60,752)
Principal Paid on OPWC Loan	(39,665)	(68,892)	(108,557)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(87,962)	84,751	(3,211)
Cash Flows from Investing Activities			
Interest on Investments	0	1,376	1,376
Net Increase in Cash and Cash Equivalents	86,468	238,411	324,879
Cash and Cash Equivalents Beginning of Year	578,119	365,534	943,653
Cash and Cash Equivalents End of Year	\$664,587	\$603,945	\$1,268,532
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$17,245	\$45,535	\$62,780
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	152,410	99,563	251,973
Decrease in Operating Assets:			
Accounts Receivable	6,836	10,415	17,251
Increase (Decrease) in Operating Liabilities:			
Accounts Payable	2,469	2,092	4,561
Accrued Wages and Benefits	609	678	1,287
Compensated Absences Payable	(1,898)	(1,081)	(2,979)
Vacation Benefits Payable	(1,004)	(2,631)	(3,635)
Intergovernmental Payable	(2,237)	(2,287)	(4,524)
Total Adjustments	157,185	106,749	263,934
Net Cash Provided by Operating Activities	\$174,430	\$152,284	\$326,714

The notes to the financial statements are an integral part of this statement.

City of Canal Fulton, Ohio
Stark County
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2006

	<u>Agency</u>
Assets	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$3,591</u>
Liabilities	
Current Liabilities:	
Undistributed Monies	<u>\$3,591</u>

The notes to the financial statements are an integral part of this statement.

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**CITY OF CANAL FULTON, OHIO
STARK COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

NOTE 1 – DESCRIPTION OF THE CITY AND REPORTING ENTITY

As a result of the 2000 census, Canal Fulton, formerly known as the Village of Canal Fulton became the City of Canal Fulton. The city of Canal Fulton (the "City") is a charter municipal corporation, incorporated under the laws of the State of Ohio. The City operated under a Mayor-City Manager-Council form of government. The mayor and Council are elected to four year terms. The City Manager is appointed by the Mayor.

Reporting Entity

A reporting Entity is comprised of the primary government, component units and other organizations that are included to ensure that financial statements are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the City. The primary government provides the following services to its citizens: water and sewer utilities, park operations (leisure time activities), street maintenance and repairs, police and fire protection and emergency medical services.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board; and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organizations. Component units may also include organizations for which the City authorizes the issuance of debt or the levying of taxes, or determines the budget. There were no component units included as part of this report.

The City participated in the Stark County Regional Planning Commission, the Stark Council of Governments and the Stark County District Board of Health as jointly governed organizations and the Local Organized Governments in Cooperation, which is defined as a joint venture. Additional information is included in Note 20.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these basic financial statements are summarized below. These policies conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The City applies Financial Accounting Standards Board Statements (FASB) and Interpretations issued on or before November 30, 1989 to its business-type activities and enterprise funds provided they do not conflict with Governmental Accounting Standards Board pronouncements. The City has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The most significant of the City's accounting policies are described below.

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**CITY OF CANAL FULTON, OHIO
STARK COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal ongoing operation. The principal operating revenues of the city's proprietary funds are charges for services, operating expenses for the enterprise fund including personnel and other expenses related to sewer, water and sanitation operations and operating expenses for the internal service fund including claims and administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

B. *Fund Accounting*

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

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Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter of the City and/or the general laws of Ohio.

Street Maintenance Special Revenue Fund - The street maintenance fund accounts for other local taxes received to pay for the expenses related to maintaining the roads in the City.

Police Special Revenue Fund - The police fund accounts for property tax proceeds received to pay for the expenses related to police protection in the City.

Fire/EMS Special Revenue Fund - The fire/EMS fund accounts for property tax proceeds received to pay for the expenses related to fire protection and emergency medical services in the City.

Capital Improvement Capital Projects Fund - The capital improvement fund accounts for grant monies used for capital improvements in the City.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund - The water fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

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Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations. The City's only fiduciary fund is an agency fund. The agency fund is used for performance bonds.

C. *Measurement Focus*

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements

All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet.

The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Agency funds do not report a measurement focus as they do not report operations.

D. *Basis of Accounting*

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 8). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants, and rentals.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

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FOR THE YEAR ENDED DECEMBER 31, 2006**

E. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of City Council. The Finance Director has been authorized to allocate appropriations to the department and object level within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources in effect at the time the final appropriations were passed by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

F. Cash, Cash Equivalents and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds, including the proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

During 2006, investments were limited to Federal Home Loan Bank Bonds.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as overnight repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the year 2006 amounted to \$112,410, which includes \$102,142 assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

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G. *Interfund Balances*

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

H. *Capital Assets*

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	5 to 50 years	50 years
Machinery and Equipment	3 to 10 years	5 to 10 years
Vehicles	3 to 10 years	5 years
Infrastructure	10 to 75 years	75 years

The City's current infrastructure consists of road projects, storm sewers and water and sewer lines. For 2003, the City reported governmental activities infrastructure for the first time. The City only reports the amounts acquired after 2002. The City plans to phase in the prior year amounts for roads and bridges in future years.

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I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination payments and those the City has identified as probable of receiving payment in the future (those employees who have been employed by the City for ten years or more). The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the fund financial statements when due.

K. Fund Balance Reserves

The City records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Fund balances are reserved for encumbrances.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The government-wide statement of net assets reports \$2,111,214 of restricted net assets, of which \$71,397 is restricted by enabling legislation.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for waste water treatment, water services and self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as non-operating.

N. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

O. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

Q. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

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NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

A. Prior Period Adjustments

A prior period adjustment is required to properly reclassify a grant receivable in 2005 to loan proceeds received in 2006. The effect of this change on Net Assets and Fund Balance is summarized below:

	Governmental Activities
Net assets, December 31, 2005	\$7,550,339
Adjustment to eliminate grant receivable	(331,649)
Restated net assets, January 1, 2006	<u>\$7,218,690</u>

	Governmental Funds					
	General Fund	Police	Fire/EMS	Capital Improvements	All Other Governmental Funds	Total
Fund Balance, December 31, 2005	\$560,868	\$77,885	(\$53,605)	(\$243,675)	\$208,176	\$549,649
Adjustment to eliminate grant receivable	0	0	0	(331,649)	0	(331,649)
Restated Fund Balance, January 1, 2006	<u>\$560,868</u>	<u>\$77,885</u>	<u>(\$53,605)</u>	<u>(\$575,324)</u>	<u>\$208,176</u>	<u>\$218,000</u>

B. Deficit Fund Balances

The following funds had a deficit in fund balance at December 31, 2006:

Fund	Deficit
Special Revenue Funds:	
Fire/EMS	(\$24,424)
Debt Service Funds:	
Elm Ridge Development Special Assessment	(3,756)

These funds complied with Ohio State law, which does not permit cash basis deficits. The General Fund transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities. These deficits should be eliminated by future intergovernmental revenues not recognized under GAAP at December 31.

C. Change in Accounting Principles

For year 2006, the City has implemented GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" which establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation. In addition, the District implemented GASB Statement No. 47, "Accounting for Termination Benefits" which establishes standards of accounting and financial reporting for termination benefits. The implementation of GASB Statement 46 and GASB Statement 47 had no material effect on the financial statements of the City.

D. Budgetary Non-Compliance

Contrary to 5705.41 (B) of the Ohio Revised Code, the General Fund, Income Tax Fund, Fire/EMS Fund, State Highway Improvement Fund, Downtown Improvement Fund, Water Fund, and Water Debt Fund had accounts in which expenditures plus encumbrances exceeded appropriations.

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NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above is based upon accounting for certain transactions on a basis of cash receipts, disbursements, appropriations, and encumbrances.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Basis), presented for the General Fund and Streets Fund are presented on the budgetary basis to provide a relevant comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year-end encumbrances are treated as expenditures/expenses (budget) rather than as a reservation of fund balance for governmental types (GAAP).
4. Advances-in and advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements.

Net Changes in Fund Balance
General and Major Special Revenue Funds

	General Fund	Street Maintenance	Police	Fire/EMS
GAAP Basis	(\$261,141)	(\$53,612)	(\$62,079)	\$29,181
Net Adjustment for Revenue Accruals	133,670	(1,783)	1,562	3,785
Net Adjustment for Expenditure Accruals	(309,108)	(33,195)	(7,624)	(20,076)
Encumbrances	82,115	15,066	2,147	5,167
Budget Basis	(\$354,464)	(\$73,524)	(\$65,994)	\$18,057

NOTE 5 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

1. Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdraw able on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.
2. Inactive deposits are public deposits that Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.
3. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits

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must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Interim monies are permitted to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits – Custodial credit risk is the risk that, in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At December 31, 2006, of the bank balance of \$1,719,646, \$339,429 was covered by Federal depository insurance and \$1,380,217 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institutions' trust department or agent, but not in the City's name.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities

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deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105% of the deposits being secured.

Investments

As of December 31, 2006, the City had the following investments and maturities:

	<u>Fair Value</u>	<u>Maturity</u>
Overnight Repurchase Agreement	\$870,000	Daily
Federal Home Loan Bank Bonds	201,990	February 15, 2007
Federal Home Loan Bank Bonds	300,490	March 17, 2008
Federal Home Loan Bank Bonds	301,810	April 5, 2007
Federal Home Loan Bank Bonds	199,220	December 30, 2009
	<u>\$1,873,510</u>	

Interest Rate Risk: Arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The City's investment policy addresses interest rate risk requiring that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity and by investing operating funds primarily in short-term investments. The City investment policy also limits security purchases to those that mature in five years unless specifically matched to a specific cash flow.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments had the following ratings by Standard & Poors.

First Merit Bank N.A.	Bbb+
Federal Home Loan Bank	Aaa

Concentration of Credit Risk is the possibility of loss attributed to the magnitude of the City's investment in a single issuer. The City's investment policy requires diversification of the portfolio but does not indicate specific percentage allocations. The City's investments are in Federal Home Loan Bank Bonds and a repurchase agreement.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2006, consisted primarily of municipal income taxes, property and other taxes, interfund, intergovernmental receivables arising from entitlements, and shared revenues and accounts (billings for utility service).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) is for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35% of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

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Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

2006 tangible personal property taxes are levied after October 1, 2005 on the value as of December 31, 2005. Collections are made in 2006. Tangible personal property assessments are 25% of true value.

The full tax rate for all City operations for the year ended December 31, 2006, was \$4.50 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

	Total Assessed Value	%
Real Property	\$83,193,600	93.88%
Tangible Personal Property	4,056,732	4.58%
Public Utility Property	1,366,760	1.54%
Total Valuation	<u>\$88,617,092</u>	<u>100.00%</u>

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Norwalk. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. In the governmental fund financial statements, the entire receivable is offset by deferred revenue since the current taxes were not levied to finance 2006 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

NOTE 8 - INCOME TAX

The City levies a municipal income tax of 1.10 percent on substantially all earned income arising from employment, residency or business activities within the City. The City allows a credit of 50 percent for the income tax paid to another municipality, not to exceed one percent of taxable income, to a maximum of half the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. By City ordinance, income tax proceeds, after income tax department expenditures, are credited to the general fund.

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NOTE 9 – INTERGOVERNMENTAL RECEIVABLES

	<u>Amount</u>
Governmental Activities	
Gasoline Tax	\$104,956
Local Government	64,914
Homestead and Rollback	22,245
Permissive Tax	<u>22,137</u>
<i>Total Governmental Activities</i>	<u>\$214,252</u>
Business-Type Activities	
Northwest Local School District Waterline	<u>\$978,775</u>

NOTE 10 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. During 2006, the City contracted with The Ohio Plan for various types of insurance. The coverage and deductible are as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Coverage</u>
General Liability	\$0	\$1,000,000/\$3,000,000
Employers Liability	0	1,000,000
Employee Benefits	0	1000,000/3,000,000
Law Enforcement Officers Liability	\$2,500	1000,000/3,000,000
Public Officials Liability	1,000	1000,000/3,000,000
Automobile	500	1,000,000
Property	1,000	9,308,420
Special Property Coverage	1,000	716,122
Electronic Equipment/Media Coverage	500	29,179
Public Employee Dishonesty	0	10,000
Boiler and Machinery	1,000	9,308,420

There has not been a significant reduction in coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three years.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

CITY OF CANAL FULTON, OHIO
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NOTE 11 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	Beginning Balance 01/01/2006	Additions	Deletions	Balance 12/31/2006
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$2,433,800	\$0	\$0	\$2,433,800
Construction in Progress	109,816	89,626	(109,816)	89,626
Total Capital Assets, Not Being Depreciated	2,543,616	89,626	(109,816)	2,523,426
Capital Assets, Being Depreciated:				
Buildings and Improvements	3,269,406	208,539	0	3,477,945
Equipment and Machinery	221,590	95,852	0	317,442
Vehicles	1,057,083	67,680	0	1,124,763
Infrastructure:				
Storm Sewers	3,579,030	0	0	3,579,030
Roads	503,422	51,188	0	554,610
Total Capital Assets, Being Depreciated	8,630,531	423,259	0	9,053,790
Less Accumulated Depreciation:				
Buildings and Improvements	(1,340,435)	(116,660)	0	(1,457,095)
Equipment and Machinery	(112,436)	(60,473)	0	(172,909)
Vehicles	(967,420)	(27,599)	0	(995,019)
Infrastructure:				
Storm Sewers	(1,702,102)	(40,194)	0	(1,742,296)
Roads	(69,145)	(27,866)	0	(97,011)
Total Accumulated Depreciation	(4,191,538)	(272,792)*	0	(4,464,330)
Total Capital Assets, Being Depreciated, net	4,438,993	150,467	0	4,589,460
Governmental Activities Capital Assets, net	<u>\$6,982,609</u>	<u>\$240,093</u>	<u>(\$109,816)</u>	<u>\$7,112,886</u>

**CITY OF CANAL FULTON, OHIO
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	<u>01/01/2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2006</u>
Business-type Activities				
Capital Assets, Not Being Depreciated:				
Land	\$313,600	\$0	\$0	\$313,600
Contruction in Progress	25,600	0	(25,600)	0
Total Capital Assets, Not Being Depreciated	339,200	0	(25,600)	313,600
Capital Assets, Being Depreciated:				
Buildings and Improvements	4,119,116	54,409	0	4,173,525
Equipment and Machinery	133,986	18,631	(47,676)	104,941
Vehicles	76,259	1,040	0	77,299
Infrastructure:				
Sewer Lines	4,956,614	25,600	0	4,982,214
Water Lines	6,130,699	0	0	6,130,699
Total Capital Assets, Being Depreciated	15,416,674	99,680	(47,676)	15,468,678
Less Accumulated Depreciation:				
Buildings and Improvements	(1,461,821)	(77,102)	0	(1,538,923)
Equipment and Machinery	(26,446)	(12,025)	0	(38,471)
Vehicles	(44,581)	(8,051)	0	(52,632)
Infrastructure:				
Sewer Lines	(2,056,968)	(17,037)	0	(2,074,005)
Water Lines	(2,348,158)	(90,082)	0	(2,438,240)
Total Accumulated Depreciation	(5,937,974)	(204,297)	0	(6,142,271)
Business-Type Activities Capital Assets, net	9,478,700	(104,617)	(47,676)	9,326,407
Business-Type Activities Capital Assets, net	<u>\$9,817,900</u>	<u>(\$104,617)</u>	<u>(\$73,276)</u>	<u>\$9,640,007</u>

* Depreciation expense was charged to governmental functions as follows:

General Government	\$99,003
Security of Persons and Property	112,556
Transportation	61,233
Total Depreciation Expense	<u>\$272,792</u>

NOTE 12 – NOTES PAYABLE

A summary of the note transactions for the year ended December 31, 2006, follows:

	<u>Outstanding 12/31/05</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 12/31/06</u>
Governmental Activities:				
4.25% Bond Anticipation Note	\$750,000	\$0	(\$750,000)	\$0
4.25% Bond Anticipation Note	\$0	\$750,000	\$0	\$750,000

In 2006, the City issued \$750,000 in Bond Anticipation Notes to purchase a piece of property to be used to expand the City's municipal complex. The notes are bond anticipation notes, are backed by the full faith and credit of the City, and mature November 29, 2007. The note liability is reflected in the fund which received the proceeds and will repay the debt.

CITY OF CANAL FULTON, OHIO
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 13 – LONG-TERM OBLIGATIONS

<u>Debt Issue</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Date of Maturity</u>
Governmental Activities:			
Police Station Bonds - 2001	2.7%-3.45%	\$505,000	December 1, 2006
Downtown Improvement Bonds - 2001	2.6%-4.2%	380,000	December 1, 2011
Street Improvement Special Assessment Bonds - 1987	6.5%	233,000	December 1, 2007
Fire Station Improvement Bonds - 2006-1	4.25%-5.00%	750,000	December 1, 2025
Fire Station Improvement Bonds - 2006-2	4.25%-5.00%	750,000	December 1, 2025
Business-Type Activities:			
OPWC Canal Street Waterline Loan - 1995	0.0%	\$123,156	July 1, 2015
OPWC Market Street Waterline Loan - 1995	0.0%	322,455	July 1, 2015
OPWC Water Treatment Plant Loan - 2005	0.0%	600,595	July 1, 2024
OPWC Denshire Sanitary Sewer Loan - 2003	0.0%	417,195	July 1, 2022
OPWC Solids handling Improvement Loan - 2003	0.0%	376,100	January 1, 2023
OPWC Milan St. Waterline Loan - 2006	0.0%	331,649	January 1, 2026
Water Treatment Plant Bonds - 2001	2.6%-4.2%	810,000	December 1, 2011
Water Plant Expansion Bonds - 2001	2.6%-4.2%	615,000	December 1, 2011
Northwest Waterline Bonds - 2005	3.0%-4.5%	730,000	March 15, 2025

Changes in the long-term obligations of the City during 2006 were as follows:

	<u>Balance 01/01/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/06</u>	<u>Amount Due In One Year</u>
Governmental Activities:					
General Obligation Bonds					
Police Station Bonds	\$100,000	\$0	(\$100,000)	\$0	\$0
Downtown Improvement Bonds	226,724	0	(33,529)	193,195	36,723
Fire Station Bond Series 2006-1	0	750,000	(40,000)	710,000	25,000
Premium on Bonds	0	9,004	(474)	8,530	450
Fire Station Bond Series 2006-2	0	750,000	(45,000)	705,000	25,000
Premium on Bonds	0	3,735	(186)	3,549	187
Total General Obligation Bonds	<u>326,724</u>	<u>1,512,739</u>	<u>(219,189)</u>	<u>1,620,274</u>	<u>87,360</u>
Special Assessment Bonds with Governmental Commitment	24,000	0	(12,000)	12,000	12,000
Compensated Absences	38,768	26,382	(6,497)	58,653	5,415
Total Governmental Activities	<u>\$389,492</u>	<u>\$1,539,121</u>	<u>(\$237,686)</u>	<u>\$1,690,927</u>	<u>\$104,775</u>

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	Balance 01/01/06	Additions	Deletions	Balance 12/31/06	Amount Due In One Year
Business -Type Activity:					
<u>OPWC Loans</u>					
OPWC Canal Street Waterline Loan	\$58,498	\$0	(\$6,158)	\$52,340	\$6,158
OPWC Market Street Waterline Loan	153,167	0	(16,123)	137,044	16,123
OPWC Water Treatment Plant Loan	555,550	0	(30,030)	525,520	30,030
OPWC Denshire Sanitary Sewer Loan	344,185	0	(20,860)	323,325	20,860
OPWC Solids Handling Loan	319,685	0	(18,805)	300,880	18,805
OPWC Solids Milan Street Waterline Loan	0	331,649	(16,582)	315,067	16,582
Total OPWC Loans	<u>1,431,085</u>	<u>331,649</u>	<u>(108,558)</u>	<u>1,654,176</u>	<u>108,558</u>
Water Treatment Plant Bonds	483,276	0	(71,471)	411,805	78,277
Water Plant Expansion Bonds	330,000	0	(55,000)	275,000	55,000
Northwest Waterline Bonds	730,000	0	(25,000)	705,000	25,000
Premium on Bonds	4,852	0	(256)	4,596	255
Compensated Absences	23,811	1,980	(4,959)	20,832	1,983
Total Business-Type Activity	<u>\$3,003,024</u>	<u>\$333,629</u>	<u>(\$265,244)</u>	<u>\$3,071,409</u>	<u>\$269,073</u>

The police station bond and the downtown improvement bond will be paid from the downtown improvement debt service fund.

The special assessment bonds were issued to construct streets in the Elm Ridge Industrial Development Park and will be paid from the Elm Ridge Development special assessment debt service fund. The special assessment bonds are backed by the full faith and credit of the City. In the event that an assessed property owner fails to make payments, the City will be required to pay the related debt.

The water treatment plant bonds and the water plant expansion bonds were issued in 2001 to improve and expand the City's water treatment plant. The bonds are paid from user fees in the water fund.

On March 15, 2005, the City issued \$730,000 of Water Improvement Bonds for the purpose of constructing a waterline for the Northwest Local School District. The bonds are subject to mandatory sinking fund redemption before maturity. Interest payments, at rates ranging from 3.00 percent to 4.50 percent per year are payable on March 15 and September 15 of each year, until the principal amount is paid. The bonds are paid from money to be received from the School District.

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Redemption Provisions

Mandatory sinking Fund Redemption The water improvement bonds maturing on March 15, 2025 are term bonds and are subject to mandatory sinking redemption requirements on March 15 in the years (Mandatory Redemption Dates) and in the principal amounts as follows (with the balance of \$55,000 to be paid at maturity on March 15, 2025):

Year	Principal
2021	\$45,000
2022	45,000
2023	50,000
2024	50,000

On June 14 and then on July 6, 2006, the City issued Fire Station Improvement Bonds 2006-1 and 2006-2, respectively. Both bonds were issued for \$750,000 for the purpose of constructing a new fire station. The bonds will be paid from the capital improvement fund.

The OPWC water and sewer loans are to finance various waterline and sanitary sewer projects in the City and will be paid from the water and sewer funds.

Compensated absences will be paid from the general fund, the street maintenance and police special revenue funds, and the water and sewer enterprise funds.

As of December 31, 2006 the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$9,306,319 and the unvoted legal debt margin was \$4,075,085. Principal and interest requirements to retire the City's long-term obligations outstanding at December 31, 2006 are as follows:

Governmental Activities

Year	Downtown Improvement Bonds		Fire Station Bonds 2006-1		Fire Station Bonds 2006-2		Total Fire Station Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$36,723	\$7,664	\$25,000	\$33,513	\$25,000	\$33,262	\$50,000	\$66,775	\$12,000	\$780
2008	36,723	6,323	25,000	32,450	25,000	32,200	50,000	64,650	0	0
2009	39,916	4,910	25,000	31,388	25,000	31,138	50,000	62,526	0	0
2010	39,916	3,313	30,000	30,325	30,000	30,075	60,000	60,400	0	0
2011	39,917	1,676	30,000	29,050	30,000	28,800	60,000	57,850	0	0
2012-2016	0	0	165,000	125,225	165,000	123,975	330,000	249,200	0	0
2017-2021	0	0	205,000	83,250	205,000	82,000	410,000	165,250	0	0
2022-2025	0	0	205,000	26,000	200,000	25,750	405,000	51,750	0	0
Total	<u>\$193,195</u>	<u>\$23,886</u>	<u>\$710,000</u>	<u>\$391,201</u>	<u>\$705,000</u>	<u>\$387,200</u>	<u>\$1,415,000</u>	<u>\$778,401</u>	<u>\$12,000</u>	<u>\$780</u>

CITY OF CANAL FULTON, OHIO
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Year	Total OPWC Loans	Water Treatment Plant Bonds		Water Treatment Plant Expansion Bonds		Northwest Waterline Bonds	
	Principal	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$108,559	\$78,277	\$16,336	\$55,000	\$10,890	\$25,000	\$28,413
2008	108,559	78,278	13,479	55,000	8,883	25,000	27,663
2009	108,559	85,084	10,465	55,000	6,765	30,000	26,800
2010	108,559	85,084	7,062	55,000	4,565	30,000	25,787
2011	108,559	85,082	3,574	55,000	2,310	30,000	24,738
2012-2016	509,366	0	0	0	0	165,000	105,163
2017-2021	431,385	0	0	0	0	200,000	67,606
2022-2025	170,630	0	0	0	0	200,000	18,675
Total	<u>\$1,654,176</u>	<u>\$411,805</u>	<u>\$50,916</u>	<u>\$275,000</u>	<u>\$33,413</u>	<u>\$705,000</u>	<u>\$324,845</u>

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

All employees of the City, with the exclusion of City police officers and firefighters, participate in the Ohio Public Employees Retirement System (OPERS), which administers three separate pension plans as described below:

1. The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon.
3. The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The OPERS issues a stand-alone financial report that may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)222-6701 or 1-800-222-7377.

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The Ohio Revised Code provides statutory authority for member and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans. The 2006 member contribution rates were 9.0% for members in local classifications. The 2006 employer contribution rate was 13.70% of covered payroll. The City's required contributions for pension obligations to the OPERS for the years ending December 31, 2006, 2005, and 2004 were \$96,480, \$83,493, and \$76,368, respectively. The full amount has been contributed for 2005 and 2004. 90.54% has been contributed for 2006.

B. *Ohio Police and Fire Pension Fund*

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan. The OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24.0% for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for the years ended December 31, 2006, 2005, and 2004 \$47,106, \$47,434, and \$44,093, respectively, equal to the required contributions for each year. The full amount has been contributed for 2005 and 2004. 74.96% has been contributed for 2006 with the remainder being reported as a liability.

C. *Social Security System*

All volunteer firefighters and Council members, not otherwise covered by another retirement system, are covered by Social Security. The City's liability is 6.2% of wages paid.

NOTE 15 – POSTEMPLOYMENT BENEFITS

A. *Public Employees Retirement System*

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

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OPERS provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post-Employment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2006 employer contribution rate was 13.70% of covered payroll; 4.5% was the portion that was used to fund health care for the year 2006. The City's actual contributions for 2006 which were used to fund post-employment benefits were \$47,191.

The Ohio Revised Code provides the statutory authority requiring employers to fund postretirement health care through their contributions to OPERS.

The assumptions and calculations below were based on OPERS latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5%, an annual increase in active employee total payroll of 4.0% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll over and above the 4.0% base increase of between .50% and 6.3% based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 6% for the next nine years. In subsequent years (ten and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

An entry-age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets.

OPEB is advance-funded on an actuarially determined basis.

At year end 2006, the Traditional Pension and Combined Plans had 369,214 active contributing participants. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. The actual contribution and the actuarially required contribution amounts are the same. OPERS net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

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B. *Ohio Police and Fire Pension Fund*

The Ohio Police and Fire Pension Fund (OP&F) provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the OP&F Ohio shall be included in the employer's contribution rate. The total police officer employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll. The City's actual contributions for 2006 which were used to fund post-employment benefits were \$31,070 for police.

The Ohio Revised Code provides the statutory authority allowing the OP&F Ohio's Board of Trustees to provide health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions. The number of participants eligible statewide to receive health care benefits as of December 31, 2005, the date of the last actuarial valuation available, are 13,922 for police officers and 10,537 for firefighters. The OP&F Ohio's total health care expense for the year ending December 31, 2005, the date of the last actuarial valuation available, was \$108,039,449, which was net of member contributions of \$55,271,881.

NOTE 16 – OTHER EMPLOYEE BENEFITS

A. *Compensated Absences*

Vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten or more days of vacation per year, depending upon length of service. Only five vacation days may be carried over to the following year. All accumulated unused vacation time is paid upon termination of employment.

Employees earn sick leave at a rate of 4.6 hours for each completed pay period of 80 hours. Sick leave accumulation is unlimited, but upon retirement or death, an employee can be paid twenty-five percent of accumulated, unused sick leave to a maximum of thirty days.

B. *Medical and Dental Insurance*

The City provides medical and dental benefits to employees through HomeTown Health. The City's portions of the monthly premiums for 2006 were \$867.10 for family, \$623.79 for employee and spouse, \$520.26 for employee and children, and \$289.04 for single.

NOTE 17 - CONTINGENT LIABILITIES

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, City management believes such disallowances, if any, will be immaterial.

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NOTE 18 - INTERFUND TRANSACTIONS

A. Transfers

Interfund transfers for the year ending December 31, 2006 consisted of the following:

Transfers In:		Transfers Out:
	General	
Street Maintenance	\$41,000	
Police	619,811	
Fire/EMS	383,000	
Capital Improvements	250,000	
All Other Governmental Funds	185,155	
Total	<u>\$1,478,966</u>	

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to segregate money for anticipated capital projects; to provide additional resources for current operations or debt service; and to return money to the fund from which it was originally provided once a project is completed.

\$41,000 was transferred from the general fund to the street maintenance fund to supplement the funds available for maintaining City streets. \$619,811 was transferred from the general fund to the police fund to supplement the funds available for police protection. \$383,000 was transferred from the general fund to the fire/EMS fund to supplement the funds available for fire fighting and emergency medical services. \$250,000 was transferred from the general fund to the capital improvement fund to supplement the funds available for capital improvements. \$147,543 was transferred from the general fund to the downtown improvement fund to retire debt. \$37,612 was transferred from the general fund to the Elm Ridge special assessment fund to retire debt.

B. Interfund Balances

Interfund balances at December 31, 2006 consisted of an interfund payable in the Elm Ridge Special Assessment debt service fund and an interfund receivable in the general fund of \$3,756 from the prior year.

NOTE 19 - LITIGATION

The City is not currently a party to any legal proceedings which would have a material impact on the financial statements.

NOTE 20 - JOINTLY GOVERNED ORGANIZATIONS AND JOINT VENTURE

A. Stark County Regional Planning Commission

The City participates in the Stark County Regional Planning Commission (Commission), which is a statutorily created political subdivision of the State. The commission is jointly governed among Stark county, and other cities, villages, and townships. Of the 48 member board, the City appoints one member. The degree of control exercised by any participating government is limited to its representation on the board. The principal aim of the Commission is to provide comprehensive planning, both long and short-term range, dealing with the economic and physical environment of Stark County. The board exercises total authority for the day-to-day operations of the Commission.

**CITY OF CANAL FULTON, OHIO
STARK COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

These include budgeting, appropriating, contracting and designating management. The City has no financial responsibility for any of the Commission's liabilities. In 2006, the City contributed \$506 to the Commission. Complete financial statements can be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

B. *Stark Council of Governments*

The City participates in the Stark Council of Governments (the "Council") which is a statutorily created political subdivision of the State. The Council is jointly governed among Stark County and its municipalities and townships which direct the operations of the Stark County Metropolitan Narcotics Unit and the Stark County Crime Laboratory. Of the 27 members, the City has one appointed member. Each member's control over the operation of the Council is limited to its representation on the board. The board exercises total authority over the operation of the Council including budgeting, appropriation, contracting, and designating management. The City does not have an equity interest in the Council. The Council is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City did not contribute any funds to the Council in 2006. Complete financial statements can be obtained from the Stark Council of Governments, P.O. Box 21451 Canton, Ohio 44701-1451.

C. *Stark County District Board of Health*

The City participates in the Stark county District Board of Health (the "Health District") which is a statutorily created political subdivision of the State. The Health District is jointly governed by Stark County townships, villages, the City of Canal Fulton, The City of Louisville, and the City of North Canton. Of the 7 board members, the City has one appointed member. The board is made up of various professionals who are equally representative of the general health district. The board exercises total authority over the operation of the Health District including budgeting, appropriation, contracting, and designating management. The City does not have an equity interest in the Health District. The Health District is not accumulating significant financial resources or experiencing fiscal stress which would cause additional financial benefit to or burden on the City. The City did not contribute any funds to the Health District in 2006. Complete financial statements can be obtained from the Stark County Combined General Health District, 3951 Convenience Circle NW, Canton, Ohio 44718.

D. *Local Organized Governments in Cooperation*

The City participates in the Local Organized Governments in Cooperation (LOGIC), a statutorily created political subdivision of the State formed in 1986 to provide safety dispatching services. LOGIC is a joint venture among the City, Jackson Township, City of Massillon, and Hills and Dales Village, with each participant providing one representative to serve on the board. Each representative has a membership share based on the percentage of contractual financial contributions to the total funding, and each participant is entitled to vote its percentage share. The board has total authority over the operation of LOGIC, including budgeting, appropriating, contracting, and designating management. Continued existence of LOGIC is dependent on the City's continued participation. LOGIC does not provide specific financial benefits or impose specific financial burdens on the City. During 2006, the City made contributions of \$55,416. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, Canton, Ohio.

**REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

City of Canal Fulton
Stark County
155 East Market Street
Canal Fulton, Ohio 44614

To Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Canal Fulton (Stark County), Ohio (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2006-02 and 2006-03 to be a significant deficiencies in internal control over financial reporting.

City of Canal Fulton
Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by Government Auditing Standards
Page 2

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider items 2006-02 and 2006-03 to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2006-01.

We noted certain matters that we have reported to management of the City in a separate letter dated July 18, 2008.

The City's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, City Council federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

July 18, 2008

**CITY OF CANAL FULTON
STARK COUNTY, OHIO**

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED DECEMBER 31, 2006

Finding 2006-01

Section 5705.14, 5705.15 and 5705.16, Revised Code, provides guidelines pertaining to allowable interfund transfers. Generally, before an interfund transfer can be made, a resolution of the taxing authority of the political subdivision shall be passed by a majority of the governing board and such taxing authority shall prepare a petition to be presented to the tax commissioner and to the Court of Common Pleas of the County requesting approval of said transfers. The following transfer was not authorized by resolution:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
City Income Tax	General	2,500

We noted that transfers were being authorized as part of the appropriation amendments. Transfers are to be authorized by a resolution that is separate from an appropriation resolution.

Corrective Action: Contact Person: Scott Svab, Finance Director

Transfers will be authorized by Council prior to making the transfer and will be authorized by a separate resolution.

Finding 2006-02

SIGNIFICANT DEFICIENCY/ MATERIAL WEAKNESS

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the City's records at a specific point in time.

Without complete and accurate monthly bank reconciliations, the City's internal control is significantly weakened which could hinder the timely detection of errors or irregularities by the City's management. The city has since reconciled the books with the bank and the adjustments have been made to the financial statements.

The City should perform complete and accurate monthly bank reconciliations. Supporting documentation of the reconciliation including outstanding check list, Statement of Cash Position report, deposits in transit and any other reconciling item should be kept in a folder with the bank reconciliation report. All unreconciled differences should be resolved as quickly as possible so they are not carried forward from month-to-month. Also, an employee independent of cash receipt and disbursement activities should review the bank reconciliations for any unusual items and document their approval by initialing the form. This will significantly improve the system of checks and balances necessary for strong cash control.

**CITY OF CANAL FULTON
STARK COUNTY, OHIO**

SCHEDULE OF FINDINGS AND RESPONSES

FOR THE YEAR ENDED DECEMBER 31, 2006

(continued)

Corrective Action: Contact Person: Scott Svab, Finance Director

The Finance Director of the City of Canal Fulton will compile monthly bank reconciliations and have an independent employee review the disbursement activities and bank reconciliations and document their approval by initialing the form.

Finding 2006-03

Net assets for Governmental Activities and the fund balance for the Capital Improvement Fund have been restated as of January 1, 2006 to correct an audit adjustment to the financial statements in 2005. The adjustment recorded a grant receivable at December 31, 2005. It was later determined that the transaction was actually loan proceeds in 2006 and should not have been recorded as a receivable.

Adjustments should be reviewed by the fiscal officer for propriety.

Corrective Action: Contact Person: Scott Svab, Finance Director

Adjustments along with supporting documentation will be reviewed.

**CITY OF CANAL FULTON
STARK COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	<u>Not Corrected, Partially Corrected, Significantly Different Corrective Action Taken, or Finding No Longer Valid; Explain</u>
2005-01	ORC Section 5705.14, 5705.15 and 5705.16	No	Not corrected
2005-02	Bank reconciliations not being done.	No	Not corrected



Mary Taylor, CPA
Auditor of State

CITY OF CANAL FULTON

STARK COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 2, 2008